

MASTER GLOSSARY OF TERMS
Equities
February 14, 2005

Introduction

This master glossary identifies, defines, and clarifies the meaning of investment terms used by CalPERS in its investment policies. The purpose of the master glossary is to establish a uniform vocabulary of terms for users of these policies.

Absolute Return Fund - An actively managed portfolio that aims to produce returns in both up markets and down markets by having a low exposure to the broad market. The portfolio tends to utilize long and short positions, derivatives and leverage to accomplish its goal. This investment is usually set up as a private partnership or an offshore corporation.

Policy

- Risk Managed Absolute Return Strategies Program

Absolute Return Strategic Partner - A consultant to the Absolute Return Strategies Program that is responsible for the screening, evaluating, recommending, and monitoring of absolute return funds for the program.

Policy

- Risk Managed Absolute Return Strategies Program

Acquisition - Gaining the controlling interest over an asset, usually referring to one company buying out another.

Policy

- Domestic Equity Index Fund - Internally Managed

Active Investment Process - An investment process that involves a certain degree of active management as defined below. The objective of an active investment process is to outperform the broad market benchmark.

Policy

- Domestic Enhanced Index Strategy - Internally Managed

Active Management - An investing strategy that seeks to outperform the broad market benchmark by creating a portfolio that is different from the broad market benchmark. In equities, this is usually accomplished by overweighting and underweighting specific sectors or securities relative to the benchmark.

Policy

- Dynamic Completion Fund - Internally Managed

Active Portfolio - A portfolio that is comprised of all of the bets against the broad market benchmark. The objective of an active portfolio is to outperform the broad market benchmark.

Policy

- Domestic Enhanced Index Strategy - Internally Managed

Active Return - The return of a portfolio that is in excess of its benchmark return. This is the return of the active portfolio.

Policy

- Domestic Enhanced Index Strategy - Internally Managed

Active Risk - The volatility of the returns of the active portfolio.

Policy

- Domestic Enhanced Index Strategy - Internally Managed

Aggregate Manager Benchmark - The weighted combination of the benchmark of all non-dynamic completion fund managers involved in a plan sponsor's investment program. The benchmarks' weights represent the managers' respective policy allocations.

Policy

- Dynamic Completion Fund - Internally Managed

American Depositary Receipts (ADRs) - Receipts for the shares of a foreign-based corporation held in the vault of a U.S. bank. ADRs, which are denominated in U.S. dollars, allow U.S. investors to get exposure to foreign stocks within the U.S. stock exchanges.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
- Domestic Equity Index Fund - Internally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed

Asset Category Target - A set of securities with their associated weights from a particular asset category that the plan sponsor believes best achieves the purposes for which the asset category is being included in the plan's investment policy.

Policy

- Dynamic Completion Fund - Internally Managed

Benchmark - A set of securities with associated weights that provides a passive representation of a manager's investment process. The benchmark return is usually used to measure a manager's performance results.

Policy

- Dynamic Completion Fund - Internally Managed

Beta - The systematic risk coefficient that expresses the expected volatility of a portfolio relative to a market portfolio.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
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- Pooled S&P 500 Equity Index Fund - Internally Managed

CalPERS Custom Wilshire 2500 Index - The Wilshire 2500 Index, excluding Real Estate Investment Trusts (REITs) and tobacco stocks, and with dividends reinvested. The Wilshire 2500 comprises the top 2500 securities of the Dow Jones Wilshire 5000 Index, excluding REITs and tobacco stocks, based on market capitalization, and is reconstituted annually. The Dow Jones Wilshire 5000 is an index that measures the performance of all U.S.-headquartered equity securities with readily available price data.

Policies

- Active Domestic Equities - Externally Managed
- Domestic Enhanced Index Strategy - Internally Managed
- Domestic Equity Index Fund - Internally Managed
- Passive Domestic Small Capitalization Equities - Externally Managed

CalPERS Financial Times Stock Exchange All World, ex-US, ex-Tobacco - The benchmark for the international equity asset class. The benchmark is created by Financial Times and reflects specific customizations, such as the exclusion of tobacco stocks as identified by the

Investor Responsibility Research Center. The benchmark can be broken down into its underlying countries.

Policies

- Active International Equities - Externally Managed
- Passive International Equities - Externally Managed

Capitalization Weighted - A weighting method based on the equity market capitalization of a stock. Market capitalization is calculated by multiplying the total outstanding shares of a stock by its price per share.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
- Domestic Equity Index Fund - Internally Managed
- Dynamic Completion Fund - Internally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed

Cash Buffer - An amount of the portfolio funds invested in cash equivalent securities, used for varying purposes, such as to avoid the incursion of a debit balance.

Policy

- Domestic Enhanced Index Strategy - Internally Managed

Commingled Fund - An investment vehicle that pools individual accounts of multiple investors. Each account holder owns units of the commingled fund similar to holding shares in a mutual fund.

Policy

- Passive International Equities - Externally Managed

Commodity Trading Advisors - This investment style is comprised of investment managers that manage assets using the global futures and options markets as their investment universe. Commodity trading advisors provide returns that have a strong trend following component and a positive skew return distribution.

Policy

- Risk Managed Absolute Return Strategies Program

Common Factor - An element of return that influences many securities and, hence, is a “common factor” in the returns on those securities. By virtue of their common influence on many stocks, common factors contribute to market return as well as residual returns of the stocks that they influence

most. Some common factors for domestic equity are capitalization, beta, price/earnings, price/book, interest sensitivity, and yield.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed
- Domestic Enhanced Index Strategy - Internally Managed
- Domestic Equity Index Fund - Internally Managed
- Dynamic Completion Fund - Internally Managed

Common Factor Return - The portfolio return attributable to a particular common factor. Asset returns are decomposed into a common factor component, based on the asset's exposures to common factors times the factor returns and the specific return.

Policy

- Domestic Enhanced Index Strategy - Internally Managed

Common Factor Risk - The risk attributable to the effects of common factors.

Policy

- Domestic Enhanced Index Strategy - Internally Managed

Convertible Arbitrage - A hedge fund strategy that involves purchasing a convertible security and simultaneously shorting the common stock of the same company. The convertible security can be the company's preferred stock or debt, secured or unsecured.

Policy

- Risk Managed Absolute Return Strategies Program

Corporate Actions - An action taken by a company that causes a material change in structure including, but not limited to, name, price, shares, capitalization, or other such events. Typical corporate actions include tender offers, mergers, Dutch auctions, and spin-offs.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
- Domestic Equity Index Fund - Internally Managed
- Dynamic Completion Fund - Internally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed

Correlation - A statistical term that measures the degree to which the movements of two variables are related. A correlation of 1.0 indicates that the two variables tend to move perfectly in the direction, while a correlation of -1.0 indicates that the two variables move in opposite directions.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
- Domestic Equity Index Fund - Internally Managed
- Dynamic Completion Fund - Internally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed

Covariance - A statistical term for the correlation between two variables multiplied by the standard deviation for each of the variables. The tendency of different random investment returns to have similar outcomes or to “covary.” The magnitude of covariance measures the strength of the common movement. Covariance can be scaled to obtain the pure number, correlation, measuring the closeness of the relationship without its magnitude.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
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- Pooled S&P 500 Equity Index Fund - Internally Managed

Crossing Network - An algorithm that optimally crosses buy and sell orders at a predetermined price, thereby reducing transaction costs.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
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- Pooled S&P 500 Equity Index Fund - Internally Managed

Custodian - A bank or other financial institution that provides custody of stock certificates and other assets of an institutional investor.

Policies

- Active Domestic Equities - Externally Managed
- Active International Equities - Externally Managed
- Domestic Enhanced Index Strategy - Externally Managed
- Domestic Enhanced Index Strategy - Internally Managed
- Passive Domestic Small Capitalization Equities - Externally Managed
- Passive International Equities - Externally Managed

Derivative - An instrument whose value is based on the performance of an underlying financial asset, index, or other investment. Classes of derivatives include futures contracts, options, currency forward contracts, swaps, and options on futures.

Policies

- Active Domestic Equities - Externally Managed
- Active International Equities - Externally Managed
- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
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- Passive Domestic Small Capitalization Equities - Externally Managed
- Passive International Equities - Externally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed
- Risk Managed Absolute Return Strategies Program

Directional Trading - A strategy used by investors that open positions, either long or short, on the belief that they are able to correctly predict the movement of price in a security. This strategy is usually employed on equity securities by hedge funds that make directional bets on value/growth, large cap/small cap, net long position or net short position. The focus can be on specific sectors, regions, etc., as well.

Policy

- Risk Managed Absolute Return Strategies Program

Dismissal - Termination of the investment management contract with CalPERS.

Policy

- Manager Monitoring - Externally Managed

Distressed Securities - Debt or equity securities of companies that are in financial distress. These securities tend to trade at significant discounts and attract investors that perceive a turnaround.

Policy

- Risk Managed Absolute Return Strategies Program

Dividend Reinvestment Program - A plan offered by a corporation in which shareholders may purchase additional shares with cash dividends on

the dividend payment date. Often times the additional shares are sold at a discount and are commission free.

Policy

- Domestic Equity Index Fund - Internally Managed

Dividend Yield - An indication of the dividend generated by a stock. The yield is calculated by dividing annual dividends per share by price per share.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
- Domestic Equity Index Fund - Internally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed

Dutch Auction - A system in which the price of an item is gradually lowered until it meets a responsive bid and is sold.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
- Domestic Equity Index Fund - Internally Managed
- Dynamic Completion Fund - Internally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed

Dynamic Completion Fund - A portfolio custom designed to control the misfit present in a plan sponsor's investment program.

Policies

- Active Domestic Equities - Externally Managed
- Dynamic Completion Fund - Internally Managed

Earnings/Price Ratio - The relationship of earnings per share to current stock price. The stock's trailing 12 months of reported earnings is often used as the earnings per share figure.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
- Domestic Equity Index Fund - Internally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed

Emerging Market - A low- to middle-income country, as defined by the World Bank, whose capital market structure and regulatory mechanisms are not as mature as those in developed markets. In order to be considered appropriate for institutional investors, an emerging market must have a

functional stock exchange or very active over-the-counter market, securities available to foreign investors, and a convertible currency.

Policies

- Active International Equities - Externally Managed
- Passive International Equities - Externally Managed

Equitize - Combining cash with derivative instruments to produce returns comparable to the equity market.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
- Domestic Equity Index Fund - Internally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed

Equity-Based Strategy - Combination of active stock selection with risk mechanism designed to minimize tracking error relative to the benchmark. Seek to add value through minor variances relative to the market in sector/industry weightings, style (growth/value) tilts or stock weightings. Key inputs into the process come from either analysts' fundamental research or quantitative models.

Policies:

- Domestic Enhanced Index Strategy - Externally Managed
- Domestic Enhanced Index Strategy - Internally Managed

Equity Swaps - An agreement between two parties dictating a swap with payments on one or both sides, linked to the performance of equities or an equity index.

Policies

- Domestic Enhanced Index Strategy - Internally Managed
- Domestic Equity Index Fund - Internally Managed

Event Driven - Strategies that invest in companies with "special situations" designed to capture price movement generated by a significant pending corporate restructuring, liquidation, bankruptcy, or reorganization.

Policy

- Risk Managed Absolute Return Strategies Program

Excess Return - The return of an asset relative to the risk-free return or some other specific benchmark.

Policy

- Domestic Enhanced Index Strategy - Internally Managed

External Manager - An outside money management firm retained under contract by CalPERS.

Policies

- Active Domestic Equities - Externally Managed
- Active International Equities - Externally Managed
- Domestic Enhanced Index Strategy - Externally Managed
- Passive Domestic Small Capitalization Equities - Externally Managed
- Passive International Equities - Externally Managed

Factor Return - See Common Factor Return.

Policy

- Domestic Enhanced Index Strategy - Internally Managed

Financial Firewall - The legal protection from financial liability extending beyond the value of the investment in the Limited Liability Company or Limited Partnership.

Policy

- Risk Managed Absolute Return Strategies Program

Financial Times Stock Exchange (FTSE) - The index publisher that produces the Custom FTSE All World ex-US Index for the System. FTSE is partially owned by the London Stock Exchange and Financial Times.

Policy

- Active International Equities - Externally Managed

Fixed Income Arbitrage - This investment style is comprised of hedge funds that seek to arbitrage from price anomalies between related interest rate securities. The hedge fund shall invest opportunistically in interest rate swaps, US and non-US government bonds, forward agreements, etc.

Policy

- Risk Managed Absolute Return Strategies Program

Forecasted Tracking Error - The expected standard deviation of a return, defined as the average of the model estimates of at least two providers.

Policies

- Domestic Equity Index Fund - Internally Managed
- Dynamic Completion Fund - Internally Managed

Foreign Exchange Transaction - Buying or selling currency for executing a cross-border security transaction. For example, a U.S. investor purchasing a United Kingdom stock must first change sufficient U.S. dollars into British pound sterling to buy the United Kingdom stock on the London Exchange.

Policy

- Passive International Equities - Externally Managed

Fundamental Beta - Predicted systematic risk coefficients (predictive of subsequent response to market return) that are derived, in whole or in part, from the fundamental operating characteristics of a company.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
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- Pooled S&P 500 Equity Index Fund - Internally Managed

Fundamental Risk Model - A model used to predict the risks of individual stocks using fundamental and technical information. A covariance matrix is constructed from the factor's standard deviations and the correlations between one another. This covariance matrix can be used to predict the risk characteristics of a portfolio.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
- Domestic Equity Index Fund - Internally Managed
- Dynamic Completion Fund - Internally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed

Futures - Contracts to buy or sell a standard quantity of a given instrument, at an agreed price, on a given date. A future differs from an option in that both parties are obliged to abide by the transaction. Futures are traded on a range of underlying instruments including commodities, bonds, currencies, and stock indices.

Policy

- Domestic Enhanced Index Strategy - Internally Managed

General Partner - The manager of a limited partnership. The general partner has full responsibility for investing the capital. The general partner also bears personal liability for any lawsuits that arise from the investment's activities, but is often indemnified by the fund.

Policy

- Risk Managed Absolute Return Strategies Program

Generally Accepted Accounting Principles (GAAP) - The common set of accounting principles, standards, and procedures. GAAP is a combination of authoritative standards (set by policy boards) and the accepted ways of doing accounting.

Policy

- Risk Managed Absolute Return Strategies Program

Hedge (Hedging) - A strategy used to offset investment risk. A perfect hedge is one eliminating the possibility of future gain or loss.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
- Domestic Equity Index Fund - Internally Managed
- Dynamic Completion Fund - Internally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed

Hedge Fund Administrator - The entity responsible for maintaining the accounting records for the Absolute Return Strategies Program.

Policy

- Risk Managed Absolute Return Strategies Program

Historical Beta - The figure calculated by regressing 60 months of a stock's total return against the monthly total returns of a broadly diversified index, after subtracting the T-Bill's rate of return from both.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
- Domestic Equity Index Fund - Internally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed

Interest Sensitivity - The figure calculated by regressing 60 months of a stock's total return against the monthly total returns of a long bond index, after subtracting the T-Bill's rate of return from both.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
- Domestic Equity Index Fund - Internally Managed

- Pooled S&P 500 Equity Index Fund - Internally Managed

International Futures Contract - An agreement to buy or sell a specific amount of a commodity or financial instrument at a particular price on a stipulated future date, where the underlying commodity or financial instrument is a non-U.S. asset.

Policy

- Passive International Equities - Externally Managed

Investment Partner/Limited Partner - An investor in a limited partnership. Limited partners provide the capital but have no direct involvement in the management of the fund. Limited partners have limited liability but also have limited control over the management of the fund.

Policy

- Risk Managed Absolute Return Strategies Program

Investment Style - An investment approach an investment manager takes to reach their objectives.

Policy

- Dynamic Completion Fund - Internally Managed

Leverage - A condition where a portfolio's market obligation may exceed the market-value-adjusted capital commitment by the amount of borrowed capital (debt).

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
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- Domestic Equity Index Fund - Internally Managed
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- Pooled S&P 500 Equity Index Fund - Internally Managed
- Risk Managed Absolute Return Strategies Program

Limited Liability Company - An alternative structure to a Limited Partnership. It is often described as a hybrid between a corporation and a partnership because it offers limited liability like a corporation and single taxation on income like a partnership.

Policy

- Risk Managed Absolute Return Strategies Program

Limited Partnership - The most common format used in structuring private equity investments. Limited partners provide the capital but have no direct involvement in the management of the fund. Limited partners have limited liability but also have limited control over the management of the fund.

Policy

- Risk Managed Absolute Return Strategies Program

Liquidity - The ability to quickly convert a particular investment into cash at a low transaction cost.

Policies

- Passive Domestic Small Capitalization Equities - Externally Managed
- Passive International Equities - Externally Managed
- Risk Managed Absolute Return Strategies Program

Long/Short Credit - This investment style is comprised of hedge funds that seek to arbitrage between the different debt instruments within a company's capital structure. The hedge fund seeks to realize returns from shifts in the credit spreads between the debt instruments.

Policy

- Risk Managed Absolute Return Strategies Program

Long/Short Equity - This investment style is comprised of hedge funds that take both long and short equity positions to extract the maximum value from their investment information/analysis.

Policy

- Risk Managed Absolute Return Strategies Program

Manager - A professional responsible for managing the securities portfolio of an individual or institutional investor. In return for a fee, the money manager has the fiduciary responsibility to choose and manage investments prudently for their clients. In the System's case, an internal manager is a portfolio manager on the staff, while an external manager is an outside money management firm.

Policy

- Manager Monitoring - Externally Managed

Market/Book Ratio - A stock's equity market value, divided by book value at the most recently available fiscal year end (assets minus liabilities).

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
- Domestic Equity Index Fund - Internally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed

Market Capitalization - A stock's current market price multiplied by the current common shares outstanding.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
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- Passive Domestic Small Capitalization Equities - Externally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed

Market Neutral - An investment strategy employed by hedge funds that attempts to remove or neutralize systematic market and industry risk, while focusing on stock selection risk. This strategy attempts to profit from the current direction of the market by taking both long and short positions at the same time.

Policy

- Risk Managed Absolute Return Strategies Program

Mean - The value that is to be expected on average. Among many repetitions or trials of a random process, the mean shall be the average value.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
- Domestic Equity Index Fund - Internally Managed
- Dynamic Completion Fund - Internally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed

Merger - The combination of two or more companies. Strictly speaking, only combinations in which one of the companies survives as a legal entity are called mergers.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
- Domestic Equity Index Fund - Internally Managed

- Dynamic Completion Fund - Internally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed

Merger Arbitrage - An investment strategy employed by hedge funds in which the stocks of the merging companies are simultaneously bought and sold in an attempt to create a riskless profit.

Policy

- Risk Managed Absolute Return Strategies Program

Misfit (also referred to as Style Bias) - The difference between a manager's portfolio and its benchmark portfolio.

Policy

- Domestic Enhanced Index Strategy - Externally Managed
- Dynamic Completion Fund - Internally Managed

Misfit Portfolio - The stock-by-stock difference in security weights between a manager's portfolio and its benchmark portfolio.

Policy

- Dynamic Completion Fund - Internally Managed

Misfit Return - The difference in returns between a manager's portfolio and its benchmark portfolio.

Policy

- Dynamic Completion Fund - Internally Managed

Misfit Risk (also referred to as Style Risk) - The variability of a manager's misfit return.

Policy

- Dynamic Completion Fund - Internally Managed

Multiple Arbitrage - An investment strategy employed by hedge funds that employ more than one arbitrage strategy within a single hedge fund. The hedge fund allocates assets based on the opportunities among the various arbitrage strategies to create the best return/risk profile for the product. The most common arbitrage strategies are merger arbitrage, fixed income arbitrage, convertible arbitrage, and volatility arbitrage.

Policy

- Risk Managed Absolute Return Strategies Program

Multi-Process - Strategies that invest in multiple hedge fund styles within a

single hedge fund structure. The hedge fund allocates assets based on the opportunities among the various hedge fund styles to create the best return/risk profile for the product. The most common hedge fund styles utilized are merger arbitrage, equity long/short, convertible arbitrage, and volatility arbitrage.

Policy

- Risk Managed Absolute Return Strategies Program

Nonsystematic Risk - That part of a total return that cannot be explained by a single- or multi-factor model of returns. Such components of return can be diversified away in a sufficiently large and well-diversified portfolio.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
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Objective Function - The objective function consists of the targets, penalties, rewards, and constraints selected in the optimization setup. It reflects the investment policy or goal.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
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Optimization - The best solution among all solutions available for consideration. Constraints on the investment problem limit the region of solutions that are considered and the objective function for the problem by capturing the investor's goals correctly, providing a criterion for comparing solutions to find the better ones. The optimal solution is the solution among those admissible for consideration that has the highest value of the objective function.

Policies

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Optimizer - Mathematical algorithm that maximizes an objective function subject to minimizing given constraints.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
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- Dynamic Completion Fund - Internally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed

Option - Contracts that give the purchaser the right, but not the obligation, to buy or sell an underlying instrument at a certain price (the exercise or strike price) on or before an agreed date (the exercise period). For this right, the purchaser pays a premium to the seller. The seller (writer) of an option has a duty to buy or sell at the strike price, should the purchaser exercise his right.

Policy

- Domestic Enhanced Index Strategy - Internally Managed

Partnership Agreement - Legal document that sets forth the terms and conditions of an investment vehicle. The partnership agreement also establishes the roles of general and limited partners.

Policy

- Risk Managed Absolute Return Strategies Program

Passive Investing/Management - Investing in a manner that attempts to replicate the characteristics and performance of a market index. In theory, passive investing/management assures investment performance is neither worse nor better than the market as a whole. In practice, actual results differ from the results reported for the index due to transactions costs and tracking error.

Policies

- Active Domestic Equities - Externally Managed
- Domestic Enhanced Index Strategy - Externally Managed
- Domestic Enhanced Index Strategy - Internally Managed
- Dynamic Completion Fund - Internally Managed

Performance Attribution - The process of attributing portfolio returns to causes. It decomposes past performance into separate components or factors contained within a multi-factor model.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed

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- Dynamic Completion Fund - Internally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed

Permissible Equity for Emerging Equity Markets - The System's policy for permissible equity for emerging equity markets, as most recently amended.

Policies

- Active International Equities - Externally Managed
- Passive International Equities - Externally Managed

Rebalancing - Modeling a portfolio through an optimizer to obtain roughly equal buy and sell trade lists.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
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- Pooled S&P 500 Equity Index Fund - Internally Managed

Reconstitution - The screening which occurs every June 30 for potential additions or deletions to the index. The screening examines the market capitalization of Real Estate Investment Trust (REIT) stocks, their content, concentration of ownership and position in the market sector. Stocks which no longer meet the criteria of the REIT index according to this policy will be eliminated from the index while new stocks which have qualified in the past year are included. A tolerance level will be applied to stocks which have dropped from the index since the past year in order to minimize transactional costs.

Policy

- Dynamic Completion Fund - Internally Managed

Return Deviation - The difference between the total return of a portfolio and the total return of the benchmark index.

Policies

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- Passive International Equities - Externally Managed

- Pooled S&P 500 Equity Index Fund - Internally Managed

Return Factor - A common factor to which sensitivity within the active portfolio is desired due to its returns being statistically significant or reliably forecastable over time.

Policy

- Domestic Enhanced Index Strategy - Internally Managed

Risk - A measurable probability of losing or not gaining value. Risk is differentiated from uncertainty, which is not measurable. Risk in this context is also referred to as “standard deviation”, which is a statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution.

Policy

- Risk Managed Absolute Return Strategies Program

Risk Attribution - The process of decomposing total risk and attributing it among the factors contained within a multi-factor model.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
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- Dynamic Completion Fund - Internally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed

Risk Budget - An investment approach where one uses measures of risk to assist in the allocation, management, and monitoring of the investments of an entity, such as a pension fund.

Policy

- Risk Managed Absolute Return Strategies Program

Risk Factor - A common factor to which sensitivity is not desired within the active portfolio due to its returns being too volatile or unpredictable over time.

Policy

- Domestic Enhanced Index Strategy - Internally Managed

Sampling - A method of indexation whereby a representative sample of the index constituents, rather than every share in the index, are purchased.

Policies

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Security Selection - Strategies that seek to mitigate market factors through a variety of hedging techniques with the objective of providing a return based solely on its stock/bond selection analysis.

Policy

- Risk Managed Absolute Return Strategies Program

Short Sale - The sale of a security that is not owned by the investor but rather is borrowed from a broker. The investor eventually repays the broker in kind by purchasing the security in a subsequent transaction.

Policy

- Domestic Enhanced Index Strategy - Internally Managed

Specialist Credit - Strategies that seek to profit from price anomalies between the variety of debt instruments (i.e., government, corporate, high yield, sovereign, etc.) and convertible bond instruments.

Policy

- Risk Managed Absolute Return Strategies Program

Specific Return - The part of the excess return not attributable to common factors. It is independent of the common factors and the specific returns of other assets.

Policy

- Domestic Enhanced Index Strategy - Internally Managed

Specific Risk - The risk of the specific return.

Policy

- Domestic Enhanced Index Strategy - Internally Managed

Speculation - Assumption of risk in anticipation of gain but recognizing a higher than average possibility of loss.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
- Domestic Equity Index Fund - Internally Managed

- Dynamic Completion Fund - Internally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed

Spin-Offs - Companies which are derived from other companies and begin to trade publicly on their own.

Policies

- Domestic Equity Index Fund - Internally Managed
- Dynamic Completion Fund - Internally Managed

Standard Deviation - A statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. It is widely used as a measure of risk for portfolio investments. It is the square root of variance. In a symmetrical distribution, such as the normal distribution, approximately two-thirds of all outcomes fall within +/-1 standard deviation, and approximately 95 percent of all outcomes fall within +/-2 standard deviations.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
- Domestic Enhanced Index Strategy - Internally Managed
- Domestic Equity Index Fund - Internally Managed
- Dynamic Completion Fund - Internally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed

Statistical Arbitrage - This investment style is comprised of hedge funds that utilize quantitative models to remove all common sources of risk from an equity portfolio (i.e., capitalization, book to market value, dividend yield, etc.) so that only stock selection risk remains. Different from market neutral managers in that quantitative factor models are used to identify and minimize.

Policy

- Risk Managed Absolute Return Strategies Program

Stratified Sampling - Selection of securities that best represent the universe by drawing from a set of cells or strata spanning two or more dimensions. The most important dimensions are market capitalization and industry representation. Cells or strata cross these dimensions and represent issues of similar characteristics. In forming the tracking portfolio, representative securities are selected from each cell.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed

- Domestic Equity Index Fund - Internally Managed
- Dynamic Completion Fund - Internally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed

Style Benchmark - A custom benchmark composed of individual securities or a combination of published benchmarks with returns closely tracking an individual manager's returns. Style benchmarks help determine what portion of a manager's performance can be explained by its style and what portion can be attributed to stock selection.

Policy

- Active Domestic Equities - Externally Managed

Style Bias (also referred to as Misfit) - The difference between an aggregate or individual manager benchmark and the target.

Policies

- Active Domestic Equities - Externally Managed
- Domestic Enhanced Index Strategy - Externally Managed
- Dynamic Completion Fund - Internally Managed

Style Risk (also referred to as Misfit Risk) - The variability of an aggregate or individual manager benchmark's misfit return, usually expressed as an annualized standard deviation.

Policy

- Dynamic Completion Fund - Internally Managed

Super Designated Order Turnaround System - An electronic trading system that allows large-size orders to be electronically and directly transmitted to the New York Stock Exchange and regional specialists.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
- Domestic Equity Index Fund - Internally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed

Swap - Private agreement between two companies to exchange cash flows in the future according to a prearranged formula.

Policy

- Passive International Equities - Externally Managed

Synthetic Strategy - Combination of obtaining market exposure via futures contracts or swaps and enhancing return through the management of the

underlying cash portfolio. The market exposure is achieved through a long S&P 500 futures position and the remaining capital is invested in money market instruments with a maturity of 90 days or longer that have greater duration or credit risk.

Policy:

- Domestic Enhanced Index Strategy - Externally Managed

Systematic Risk - That portion of total return that can be explained by a single- or multi-factor model of returns. Such components of return are directly proportional to the market's return and cannot be eliminated by diversification.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
- Domestic Equity Index Fund - Internally Managed
- Dynamic Completion Fund - Internally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed

Tender Offer - An offer to buy securities for cash, other securities, or both.

Policies

- Domestic Equity Index Fund - Internally Managed
- Dynamic Completion Fund - Internally Managed

Tracking Error - The annualized standard deviation of the difference between the total return of the portfolio and the total return of the benchmark. The term tracking error is frequently used to describe return deviation, the total return of a portfolio, minus the total return of a benchmark index.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
- Domestic Equity Index Fund - Internally Managed
- Dynamic Completion Fund - Internally Managed
- Passive Domestic Small Capitalization Equities - Externally Managed
- Passive International Equities - Externally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed

Utility - In the theory of finance, the desirability of a risky series of outcomes. In portfolio theory, utility is usually defined by a function of the mean and variance of the portfolio outcomes, which is then called a mean/variance utility function.

Policy

- Domestic Equity Index Fund - Internally Managed

Variance - A statistical term for the variability of a random variable about its mean. The variance is defined as the sum of the squares of the deviation from the mean.

Policies

- Deferred Compensation S&P 500 Equity Index Fund - Internally Managed
- Domestic Equity Index Fund - Internally Managed
- Dynamic Completion Fund - Internally Managed
- Pooled S&P 500 Equity Index Fund - Internally Managed)

Watchlist Status - Indicates a level of concern, the degree of which shall be unique to each situation and quantified by staff to the Investment Committee.

Policy

- Manager Monitoring - Externally Managed